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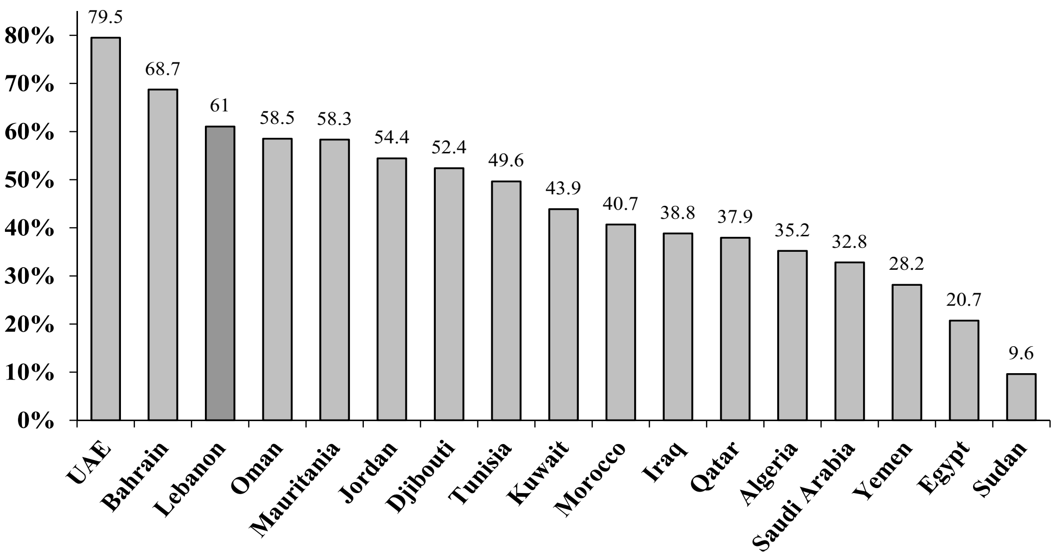
LEBANON THIS WEEK

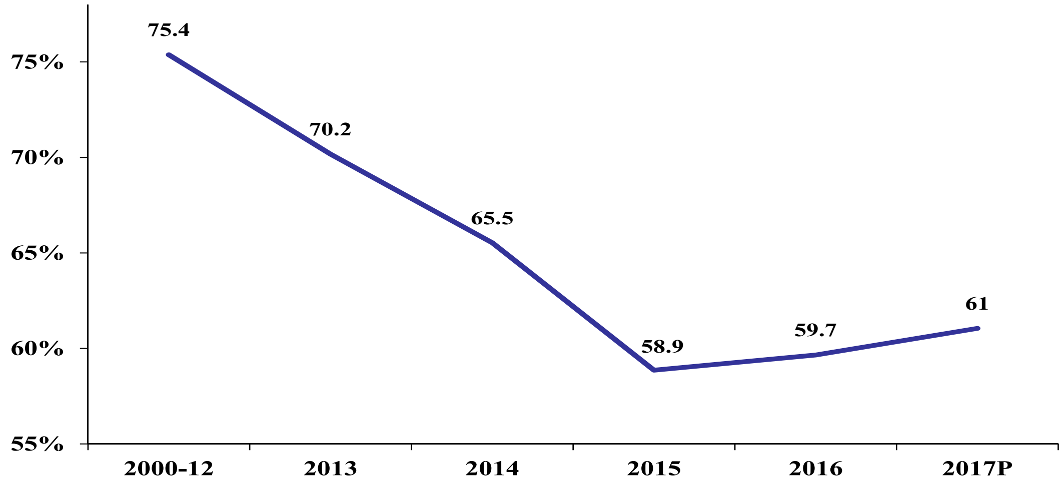
In This Issue

Charts of the Week

Projected Imports of Goods & Services to Arab Countries in 2017 (% of GDP)



Imports of Goods & Services to Lebanon (% of GDP)



Source: International Monetary Fund, Institute of International Finance, Byblos Research

Quote to Note

"Upgrading the country's infrastructure would raise the potential growth of the economy."

The Institute of International Finance, on the benefits of ratifying and implementing the public private partnership draft law

Number of the Week

53: Lebanon's rank out of 118 countries in terms of the availability of vocational and technical skills, according to the 2017 INSEAD Global Talent Competitiveness Index

Lebanon in the News

$m *(unless otherwise mentioned)*	2015	Aug 2015	May 2016	Jun 2016	Jul 2016	Aug 2016	% Change*
Exports	2.952	219	237	280	247	340	55.25
Imports	18,069	1479	1,629	1,533	1,447	1,951	31.91
Trade Balance	(15,117)	(1,260)	(1,392)	(1,253)	(1,200)	(1,611)	27.86
Balance of Payments	(3,354)	(332)	(862)	(13)	352	1,788	-
Checks Cleared in LBP	18,714	1,597	1,591	1,577	1,490	1,616	1.16
Checks Cleared in FC	50,845	4,294	4,018	4,076	3,748	4,205	(2.07)
Total Checks Cleared	69,559	5,891	5,609	5,653	5,238	5,821	(1.20)
Budget Deficit/Surplus	(3,952)	(131.05)	(40.18)	(263.20)	(49.46)	(542.16)	313.71
Primary Balance	724.40	119.82	542.95	103.48	172.32	(262.41)	-
Airport Passengers***	7,241,463	893,708	618,581	572,461	892,417	917,286	2.64

$bn *(unless otherwise mentioned)*	2015	Aug 2015	May 2016	Jun 2016	Jul 2016	Aug 2016	% Change*
BdL Gross FX Reserves	30.64	32.77	32.03	33.20	32.70	35.67	8.86
In months of Imports	*20.35*	*22.15*	*19.66*	*21.65*	*22.60*	*18.28*	(17.48)
Public Debt	70.31	68.89	71.49	72.90	73.39	74.05	7.48
Bank Assets	185.99	181.62	188.63	190.36	190.93	195.77	7.79
Bank Deposits (Private Sector)	151.59	149.63	153.89	154.66	155.07	157.09	4.99
Bank Loans to Private Sector	54.22	52.41	55.52	55.88	56.07	56.38	7.57
Money Supply M2	52.15	51.08	52.98	53.25	53.31	54.00	5.71
Money Supply M3	123.62	121.52	125.65	126.38	126.63	128.15	5.46
LBP Lending Rate (%)****	7.45	6.89	8.53	8.31	8.32	8.29	140bps
LBP Deposit Rate (%)	5.56	5.61	5.58	5.56	5.57	5.56	(5bps)
USD Lending Rate (%)	7.06	7.12	7.29	7.20	7.25	7.28	16bps
USD Deposit Rate (%)	3.17	3.19	3.26	3.31	3.30	3.39	20bps
Consumer Price Index**	(3.75)	(4.60)	(2.45)	(0.98)	(0.48)	(0.79)	381bps

** Year-on-Year ** Year-on-Year percentage change ***includes arrivals, departures, transit*
***** Starting January 2016, lending rates in Lebanese pounds are reported before any subsidy or facility from reserve requirements according to Intermediate Circular No 389, and as such they are not comparable year-on-year*
Note: bps i.e. basis points
Source: Association of Banks in Lebanon, Banque du Liban, Ministry of Finance, Central Administration of Statistics, Byblos Research

Capital Markets

Most Traded Stocks on BSE	Last Price ($)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "B"	9.84	1.13	1,088,402	5.25%
Solidere "A"	10.25	5.13	869,257	8.41%
BLOM Listed	10.80	0.00	102,227	19.05%
Audi Listed	6.74	3.06	97,523	22.10%
BLOM GDR	11.50	2.31	48,002	6.97%
Audi GDR	6.82	0.59	22,044	6.71%
Byblos Common	1.71	0.00	10,320	7.93%
HOLCIM	11.40	(4.60)	6,500	1.83%
Byblos Pref. 08	102.20	0.10	1,633	1.68%
Byblos Pref. 09	103.60	0.97	1,066	1.70%

*Source: Beirut Stock Exchange (BSE); *Week-on-week*

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Mar 2017	9.00	100.69	3.90
Nov 2018	5.15	100.00	5.15
May 2019	6.00	101.13	5.47
Mar 2020	6.38	101.88	5.71
Apr 2021	8.25	108.50	5.93
Oct 2022	6.10	99.25	6.26
Jun 2025	6.25	97.50	6.64
Nov 2026	6.60	98.63	5.00
Feb 2030	6.65	97.75	6.00
Nov 2035	7.05	99.25	7.12

Source: Byblos Bank Capital Markets

	Jan 23-27	Jan 16-20	% Change	December 2016	December 2015	% Change
Total Shares Traded	2,317,292	664,936	248.9	17,811,981	4,158,263	328.4
Total Value Traded	$22,193,410	$6,349,762	249.5	$121,409,329	$32,073,440	278.5
Market Capitalization	$12.19bn	$11.78bn	3.44	$11.90bn	$11.22bn	6.1

Source: Beirut Stock Exchange (BSE)

IMF calls for structural reforms to reduce public finance imbalances

In its Article IV Consultation for Lebanon, the International Monetary Fund indicated that the recent political breakthrough in the country provides a unique opportunity for authorities to reestablish the credibility of the policy-making framework. It noted that the new government faces a challenging policy environment that includes subdued economic growth, a rising public debt level, and ongoing spillovers from the Syrian conflict. The Fund identified three priorities for authorities that consist of developing a credible policy mix to restore fiscal sustainability and halt the growth of the public debt; maintaining the primary focus of monetary policy on exchange rate stability and the peg; and promoting growth by implementing structural reforms to reduce infrastructure bottlenecks and the bureaucratic burden on the private sector. In parallel, the Fund stated that the upside potential of the Lebanese economy is significant, as the implementation of structural reforms would significantly support consumer and investor confidence, boost economic growth, accelerate deposit inflows, and strengthen financial stability. It added that a resolution of the Syrian conflict would be beneficial for Lebanon through the reconstruction efforts in Syria, the reestablishment of trade routes and the improvement in regional investor sentiment. Further, it highlighted the critical role of Lebanon's banking system in securing sustained and broad-based economic growth, and stressed that the sector remains a critical pillar of Lebanon's resilience.

On the fiscal front, the IMF noted that donor assistance, the resolution of the Syrian conflict, and the prospective revenues from oil & gas would not substitute for fiscal adjustment and reverse Lebanon's debt dynamics. It estimated that grants of between $400m and $1bn annually during the 2017-21 period would have a small impact on the debt-to-GDP trend. It added that the positive impact on growth from the resolution of the Syrian crisis would not be sufficient to put the public debt level on a sustained downward path. In addition, it pointed out that the potential revenues from Lebanon's hydrocarbon resources are uncertain and could take several years to materialize. As such, it proposed an aggressive front-loaded fiscal adjustment package that consists mostly of revenue measures. First, it called on authorities to pass a credible budget, which would serve as a concrete signal for their commitment to reforms. Second, it considered that revenue measures should include an increase in the corporate income tax rate from 15% to 17%, the introduction of a capital gains tax on real estate transactions, an increase in the tax rate on interest income from 5% to 7%, an increase in the value-added tax (VAT) rate from 10% to at least 11%, an increase in the tobacco excise tax, and the introduction of new stamp duties and fees. Third, it called on authorities to restore the gasoline excise tax and the VAT on diesel. Fourth, it called on the government to raise electricity tariffs in order to reduce and eventually eliminate Treasury transfers to Électricité du Liban.

The IMF claimed that these fiscal measures would increase revenues by 2.5% of GDP in 2017, by 2.6% of GDP in each of 2018 and 2019, and by 2.8% of GDP in each of 2020 and 2021. In addition, it called on authorities to increase tax compliance, as tax collection in the country is only 50% of estimated capacity. It estimated that the reforms would reduce the debt level to 130% of GDP by 2021. However, in the absence of fiscal reforms, the Fund forecast Lebanon's public debt level to increase from 144% of GDP in 2016 to $110bn or 160% of GDP in 2021, while the country's financing needs would exceed 40% of GDP from 2022 onwards.

On the monetary front, the IMF called on authorities to keep monetary policy geared toward supporting the Lebanese pound peg to the US dollar. It said that the Central Bank resorted to special financial swap operations in 2016 to offset the decline in deposit inflows, which increased its foreign currency reserves significantly. But it noted that the Central Bank would have to raise interest rates rather than repeat these special operations, in case the growth of deposit inflows decelerates. It indicated that authorities have some freedom to choose the pace and timing of any interest rate change due their adequate foreign currency reserve buffers.

Selected Key Economic Indicators for Lebanon

	2015	2016e	2017f	2018f
Real GDP Growth (%)	1.0	1.0	2.0	2.5
Inflation Rate (% av.)	-3.7	-0.7	2.0	2.0
Fiscal Balance (% of GDP)	-7.3	-7.9	-8.4	-9.1
Expenditures (% of GDP)	26.2	26.9	27.5	28.3
Revenues (% of GDP)	18.8	19.0	19.0	19.2
Primary Balance (% of GDP)	1.4	1.1	1.5	1.4
Total Government Debt (% of GDP)	138	144	148	151
Credit to the Private Sector (%)	5.9	1.9	3.0	4.2
Broad Money Growth (%)	4.8	5.5	4.0	4.0
Current Account Balance (% of GDP)	-18.2	-17.5	-17.4	-17.1
Gross Foreign Currency Reserves (US$bn)	36.7	40.9	39.4	37.4
In months of imports of goods & services	13.8	14.4	13.4	12.1
In percent of short-term external debt	46.8	49.4	46.1	42.2

Source: International Monetary Fund, January 2017

Lebanon requires up to $10bn to address challenges posed by Syrian refugees

The Lebanese government launched the Lebanon Crisis Response Plan 2017-2020, a joint initiative between the Lebanese government and international and national partners that aims to address challenges posed by the large presence of Syrian refugees in the country. The government indicated that Lebanon requires between $8bn to $10bn in aggregate investments over the covered period. It noted that the presence of the Syrian refugees has had political, economic, social and security repercussions, and has weighed on Lebanon's infrastructure, healthcare and education sectors, among others. The plan aims to provide direct humanitarian assistance and protection to 1.91 million highly vulnerable individuals in host communities and to refugees, and would deliver basic services to 2.26 million affected persons.

The plan requires about $2.75bn in funding for 2017, of which $571.5m or 20.8% would be allocated towards the basic survival requirements of vulnerable individuals. Spending on food security would follow with $507.2m (18.4%), then the education sector with $372m (13.5%), healthcare with $308m (11.2%) and the water sector with $280m (10.2%).

Further, the plan would require a total of $2.78bn for 2018, of which $571.5m or 20.6% would be earmarked towards the basic survival needs of vulnerable individuals. Spending on food security would follow with $507m (18.2%), then the education sector with $372m (13.4%), healthcare with $308m (10.8%) and the water sector with $280m (10.1%).

According to the United Nation's Economic and Social Commission for Western Asia (ESCWA), Lebanon's total output losses as a result of the Syrian conflict is estimated at $13.1bn between 2011 and 2015, which is equivalent to 5.6% of the country's aggregate GDP during the covered period, with losses of $5.6bn, or 11% of GDP, in 2015 alone. Also, the Syrian conflict has reduced Lebanon's real GDP growth by about 2.9 percentage points per year from 2012 to 2014.There were a total of 1,017,433 Syrian refugees in Lebanon as at end-September 2016, including 54.1% of whom are 17 years old or younger, according to the United Nations High Commissioner for Refugees (UNHCR). The number of refugees is understated, as it excludes the refugees who are not registered with the UNHCR.

Lebanon ranks 136th globally, 16th among MENA countries on corruption index

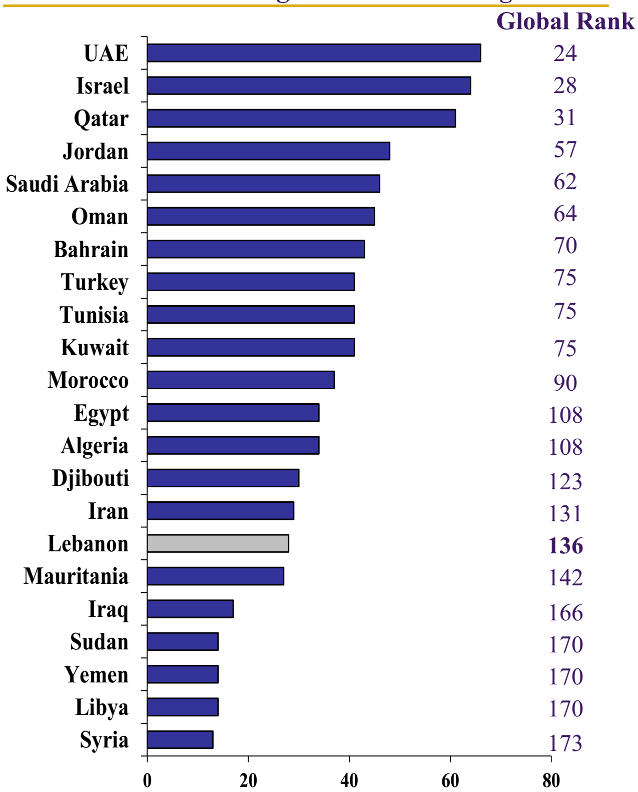
Transparency International's 2016 Corruption Perceptions Index (CPI) ranked Lebanon in 136th place among 176 countries around the world and in 16th place among 22 countries in the Middle East & North Africa (MENA) region. Also, Lebanon came in 44th place among 49 upper middle-income countries (UMICs) included in the 2016 survey. In comparison, Lebanon ranked in 123rd place among 168 countries around the world, in 16th place among 22 countries in the MENA region and in 34th place among 41 UMICs in the 2015 survey. Lebanon's global rank deteriorated by five spots from the 2015 survey based on the same set of countries year-on-year. However, Lebanon's rank improved by one spot from the 2014 survey based on the same set of countries in both surveys.

The CPI is a composite index that uses data sources from independent institutions specializing in governance and business climate analysis to assess the degree of corruption in the public sector of each country. The rankings are based on scores that range between zero and 100, with lower scores reflecting economies with a high level of corruption.

Globally, Lebanon is perceived as having the same level of corruption as Guatemala, Kyrgyzstan, Myanmar, Nigeria and Papua New Guinea. It is also considered to be less corrupt than Guinea, Mauritania, Mozambique, and more corrupt than Iran, Kazakhstan and Russia.

Lebanon received a score of 28 points, unchanged from its score in the 2015 survey and compared to a score of 27 points in the 2014 survey. Lebanon's score came below the global average score of 42.9 points, the UMICs' average score of 39.1 points and the MENA region's average score of 35.8 points. Also, Lebanon's score came below the Gulf Cooperation Council (GCC) countries' average score of 50.3 points, while it was slightly above the average score of non-GCC Arab countries of 27 points.

Corruption Perceptions Index 2016
Scores & Rankings for the MENA region



Source: Transparency International, Byblos Research

Lebanon was among 33 countries globally that received a score between 20 and 29 points, a category that Transparency International classified as the third worst globally in terms of corruption perception. Denmark and New Zealand were perceived as the least corrupt countries worldwide, while the survey found Somalia to be the most corrupt country in the world.

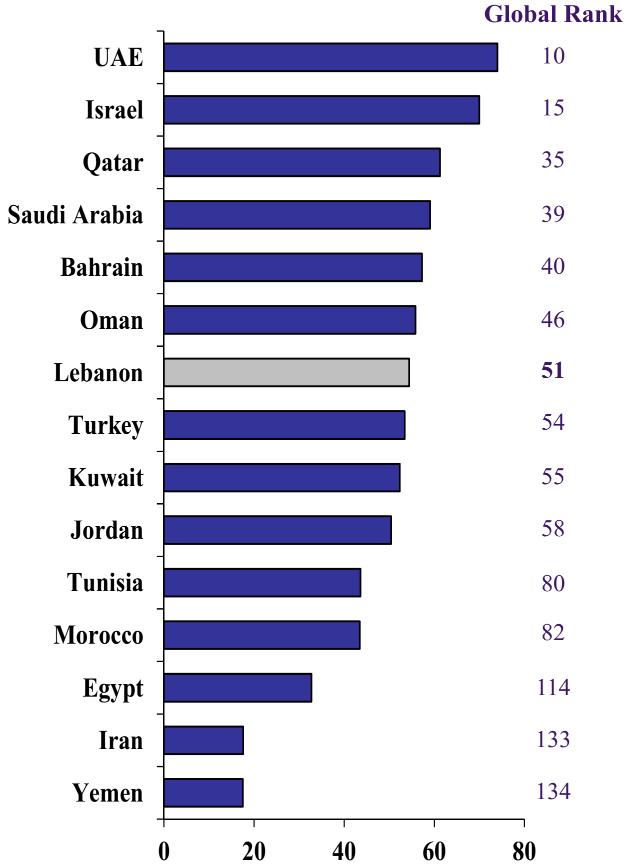
Lebanon ranks 51st worldwide, seventh in MENA region in terms of globalization

The DHL's 2016 Global Connectedness Index (GCI) ranked Lebanon in 51st place among 140 countries around the world and in seventh place among 15 countries in the Middle East & North Africa region (MENA). Lebanon also came in seventh place among 39 upper middle-income countries (UMICs) included in the survey. Lebanon's global rank improved by one spot from 52nd place in the 2015 survey, while it regressed by eight spots from 43rd place in the 2014 survey and by five spots from 46th place in 2013.

The Index reflects a country's level of globalization in terms of the size and the geographical distribution of the flows of trade, capital, information and people. The index is a composite of two sub-indicators that are the Depth Sub-Indicator and the Breadth Sub-Indicator, measured each on a scale of zero to 50. It is composed of 12 components grouped into four pillars that cover the four types of flows, and that are each assessed in terms of depth and breadth. A country's overall score on the GCI ranges from zero to 100, with a higher score reflecting a better performance in terms of global connectedness.

Globally, Lebanon is better connected globally than Lithuania, Chile and Turkey, and less connected than Latvia, Greece and Cyprus among economies with a GDP of $10bn or more. It is less connected than only Malaysia, Thailand, Bulgaria, Mauritius, Panama and South Africa among UMICs. Lebanon received a score of 54.4 points, up from 52.8 points in the 2015 survey. Lebanon's score is higher than the global average score of 48 points, the UMICs' average score of 44.8 points and the MENA average score of 49.5 points. Also, Lebanon's score is lower than the Gulf Cooperation Council (GCC) countries' average score of 60 points, but higher than that of non-GCC Arab countries of 40.4 points. The Netherlands is the most globally connected country with a score of 91 points, while Burundi is the least connected country in the world with a score of eight points.

DHL 2016 Global Connectedness Index MENA Countries Scores & Ranking



Source: DHL, Byblos Research

Lebanon ranks in 63rd place globally, in 15th place among UMICs and in eighth place regionally on the Depth Sub-Indicator. This category measures an economy's international flows of products & services, capital, information and people, relative to the size of its domestic economy. Lebanon's global rank on this category fell by nine spots in the 2016 survey and by 16 spots in the 2015 survey, which resulted in a cumulative decline of 25 spots from the 2014 survey, the third steepest decline worldwide during the covered period. Globally, Lebanon ranked ahead of Namibia and Botswana, and came behind Jordan and Israel among economies with a GDP of $10bn or more. It also ranked behind only Malaysia, Bulgaria, Mauritius, Macedonia, Georgia, Belarus, Bosnia & Herzegovina, Albania, Serbia, Thailand and Jordan among UMICs; while it came behind the UAE, Oman, Bahrain, Qatar, Kuwait, Jordan and Israel in the MENA region. Lebanon received a score of 27.7 points on this category, higher than the global average score of 24.7 points, the UMICs average score of 23.4 points and the MENA region's average score of 24 points.

Also, Lebanon ranks in 57th place globally, in 12th place among UMICs and in sixth place regionally on the Breadth Sub-Indicator. This category measures the geographical distribution of a country's international flows of trade, capital, information and people. Globally, Lebanon ranked ahead of Colombia and Kazakhstan, and came behind Bangladesh and Czech Republic. It also ranked behind only Brazil, Thailand, China, Turkey, Peru, South Africa, Malaysia, Russia, Panama, Argentina and Bulgaria among UMICs. Regionally, Lebanon trailed only Israel, Turkey, Saudi Arabia, the UAE and Qatar. Lebanon received a score of 26.8 points on this category, higher than the global average score of 23.3 points, the UMICs' average score of 21.4 points and the MENA average score of 25.5 points.

Start of pre-qualification phase for offshore oil and gas exploration and production in February 2017

The Ministry of Energy & Water announced that it will conduct a pre-qualification round for international oil and gas companies interested in participating in the first licensing round for oil and gas exploration and production in Lebanon's offshore territorial waters. It noted that five out of 10 blocks are open for bidding during the first licensing round, of which three are located in the South, one in North of Beirut and another in the North of the country, based on a study concluded by the Lebanese Petroleum Administration. The ministry noted that the oil and gas firms can submit their files starting February 2 until March 31, 2017 for pre-qualification. It added that it will publish the list of the pre-qualified firms by April 13th, and will invite these companies to submit their bids on the five blocks by September 15, 2017. It said that the companies that pre-qualified in 2013 do not need to participate in the new pre-qualification round and are eligible to take part in the bid round, as long as they still meet the pre-qualification criteria.

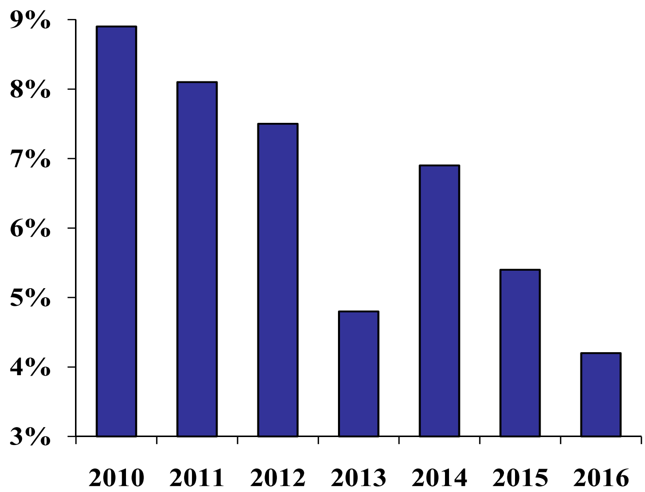
The ministry indicated that the Lebanese Petroleum Authority will have until mid-October 2017 to evaluate the companies' filings and submit a report to the Minister of Energy & Water who, in turn, will defer it to the Council of Ministers for discussion. It added that the Council of Ministers would then select the winning firms and will mandate the Minister of Energy & Water to sign the exploration and production agreements (EPA) with the selected companies starting in November 15, 2017. The EPA is an agreement between the government and pre-qualified oil companies that provides the petroleum right holders the exclusive right to explore, develop and produce oil and gas in Lebanon's offshore Exclusive Economic Zone (EEZ). The ministry anticipated the exploration process to take between 18 months and up to five years from the contracts' signing date. In 2013, 46 companies were pre-qualified to take part in the bid round for oil and gas tenders, of which 12 were pre-qualified as right-holder operators and 34 as right-holder non-operators.

In parallel, the Cabinet declared its intention to join the Extractive Industries Transparency Initiative, which is a global standard to promote transparency and accountability in the management of oil, gas and mineral resources. The Cabinet approved in early January 2017 two decrees related to the development of the offshore oil & gas industry in Lebanon. The first decree divides the Lebanese Exclusive Economic Zone into 10 blocks and delimits their coordinates, and the second presents the tender protocol that defines the conditions for participating in the bid round, the criteria used in the evaluation of the bids, and the model EPA between the government and the consortia of oil and gas companies.

Number of new construction permits up 14.5%, surface area down 1% in 2016

The Orders of Engineers & Architects of Beirut and of Tripoli issued 17,295 new construction permits in 2016, constituting an increase of 14.5% from 15,108 permits in 2015, relative to a drop of 9.3% in 2015. Mount Lebanon accounted for 36% of newly-issued construction permits in 2016, followed by the South with 18.7%, the North with 15.8%, Nabatieh with 13.7%, the Bekaa with 9% and Beirut with 3.9%. The remaining 3% are permits issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon. The number of new construction permits issued for the North rose by 76.5% year-on-year in 2016, followed by permits for the South (+25.6%) and Nabatieh (+17.6%). In contrast, the number of new construction permits issued for Beirut dropped by 15.5% year-on-year in 2016, followed by permits for Mount Lebanon (-2%) and the Bekaa (-0.4%), while permits issued for regions located outside northern Lebanon grew by 92.1% year-on-year.

Surface Area of new Construction Permits in Beirut (% of total)



Source: Orders of Engineers & Architects of Beirut and Tripoli

Further, the surface area of granted construction permits reached 12.2 million square meters (sqm) in 2016, representing a decline of 0.9% from 2015. In comparison, the surface area of granted construction permits regressed by 8.9% year-on-year in 2015. Mount Lebanon accounted for 5.2 million sqm, or 42.2% of the total, in 2016. The North followed with 1.9 million sqm (15.5%), then the South with 1.75 million sqm (14.3%), the Bekaa with 1.2 million sqm (10%), Nabatieh with 1.16 million sqm (9.5%), and Beirut with 513,768 sqm (4.2%). The remaining 536,019 sqm, or 4.4% of the total, represent the surface area of permits that were issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon. The surface area of construction permits issued for the Bekaa region grew by 20.2% year-on-year in the covered period, followed by the North (+15.8%), the South (+15.3%) and Nabatieh (+13.2%). In contrast, the surface area of construction permits issued for Beirut decreased by 23.1%, and that of permits issued for Mount Lebanon regressed by 12.6%. Also, the surface area of granted construction permits for regions located outside northern Lebanon declined by 6.3% year-on-year. In parallel, cement deliveries totaled 5 million tons in the first 11 months of 2016, constituting an increase of 7.7% from 4.6 million tons in the same period of 2015 and relative to a drop of 9.4% in the first 11 months of 2015.

Occupancy rate at Beirut hotels at 59%, room yields down 13.5% in 2016

EY's benchmark survey of the hotel sector in the Middle East indicated that the average occupancy rate at hotels in Beirut was 59% in 2016, up from 58% in 2015 and compared to an average rate of 60.9% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the sixth lowest in the region in 2016, similar to its rank in 2015. In comparison, the average occupancy rate in Arab markets fell by two percentage points year-on-year in 2016. Occupancy rates at Beirut hotels were 53% in January, 57% in February, 51% in March, 55% in April, 66% in May, 44% in June, 63% in July, 63% in August, 70% in September, 54% in October, 65% in November and 64% in December 2016. In comparison, occupancy rates were 50% in January, 56% in February, 56% in March, 58% in April, 64% in May, 58% in June, 58% in July, 64% in August, 55% in September, 55% in October, 57% in November and 58% in December 2015.

The average rate per room at Beirut hotels was $138 in 2016, ranking the capital's hotels as the second least expensive in the region relative to Abu Dhabi ($125). The average rate per room at Beirut hotels regressed by 15% year-on-year and constituted the second steepest drop among all markets in the region. The average rate per room in Beirut came below the regional average of $201.7 that decreased by 3.2% from 2015.

Hotel Sector Performance in 2016

	Occupancy Rate (%)	RevPAR (US$)	RevPAR % change
Dubai	80	200	(7.7)
Jeddah	70	196	(7.1)
Madina	60	139	(13.7)
Doha	63	136	(16.7)
Makkah	47	135	(6.0)
Muscat	65	122	(13.2)
Ras Al Khaimah	72.1	117	8.8
Kuwait City	40	109	(11.6)
Riyadh	56	108	(20.0)
Manama	50	101	(3.6)
Abu Dhabi	77	97	(16.3)
Cairo City	63	90	62.7
Beirut	**59**	**82**	**(13.5)**
Amman	50	79	(11.6)

Source: EY, Byblos Research

Further, revenues per available room (RevPAR) were $82 in Beirut in 2016, down from $94 in 2015 and were the second lowest in the region compared to Amman ($79). Beirut's RevPAR decreased by 13.5% year-on-year and posted the fifth steepest decline among Arab markets. Beirut posted RevPARs of $79 in January, $78 in February, $68 in March, $72 in April, $94 in May, $55 in June, $92 in July, $88 in August, $112 in September, $72 in October, $85 in November and $95 in December 2016, compared to $92 in January, $91 in February, $90 in March, $97 in April, $118 in May, $89 in June, $111 in July, $113 in August, $92 in September, $86 in October, $85 in November and $89 in December 2015. Makkah posted the highest average rate per room in the region at $269 while Dubai posted the highest RevPAR at $200 and the highest occupancy rate at 80% in 2016.

Revenues through Port of Beirut at $223m in first 11 months of 2016

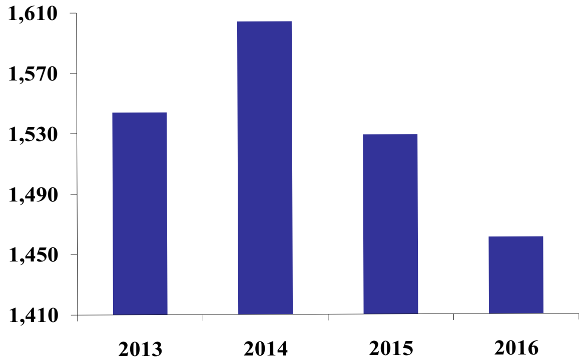
Figures released by the Port of Beirut show that the port's overall revenues reached $223.4m in the first 11 months of 2016, nearly unchanged from $223.5m in the same period of 2015. The Port of Beirut handled 8.1 million tons of freight in the first 11 months of 2016, up by 8.4% from 7.5 million tons in the same period of 2015. Imported freight amounted to 7.1 million tons in the covered period and accounted for 88.3% of aggregate freight, while the remaining 950,000 tons, or 11.7%, consisted of export cargo. A total of 1,865 ships docked at the port in the first 11 months of the year compared to 1,633 vessels in the same period of 2015. In parallel, revenues generated through the Port of Tripoli reached $13.2m in the first 11 months of 2016, constituting an increase of 4.5% from $12.6m in the same period of 2015. The Port of Tripoli handled 1.77 million tons of freight in the covered period, up by 4.8% from 1.68 million tons in the same period of 2015. Imported freight amounted to 1.4 million tons and accounted for 79.1% of the total, while the remaining 369,320 tons, or 20.9% of the total, were export cargo. A total of 746 vessels docked at the Port of Tripoli in the first 11 months of 2016, constituting a drop of 5.9% from 793 ships in the same period of 2015.

Value of cleared checks down 2%, returned checks down 4% in 2016

The value of cleared checks reached $68.1bn in 2016, constituting a decrease of 2.2% from $69.6bn in 2015. In comparison, the value of cleared checks regressed by 6.8% in 2015 and increased by 3.1% in 2014. The value of cleared checks in Lebanese pounds grew by 6.3% year-on-year to the equivalent of $19.9bn in 2016, while their value in US dollars declined by 5.3% to $48.2bn in the covered period. The dollarization rate of cleared checks decreased to 70.8% from 73.1% in 2015. Further, there were 12.3 million cleared checks in 2016, down by 1.5% from 12.5 million last year.

In parallel, the value of returned checks in domestic and foreign currency was $1.46bn in 2016 compared to $1.53bn in 2015 and $1.6bn in 2014. This constituted a drop of 4.4% year-on-year in 2016 relative to a decrease of 4.7% in 2015 and an increase of 3.9% in 2014. Also, there were 227,900 returned checks in the covered period, down by 3% from 234,900 checks in 2015.

Returned Checks (US$m)



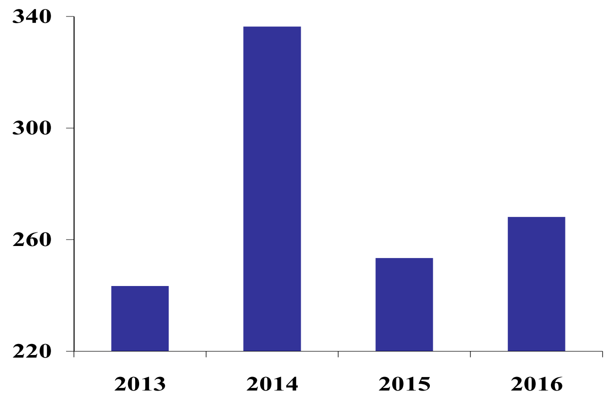
Source: Association of Banks in Lebanon

Subsidized interest loans up 6% to $268m in first half of 2016

Figures released by the Central Bank show that the amount of subsidized interest loans to productive sectors in Lebanon totaled $268.1m in the first half of 2016, constituting an increase of 5.8% from $253.4m in the same period of 2015. The industrial sector benefited from $153.1m in subsidized interest loans, equivalent to 57.1% of the total, followed by tourism with $73.2m (27.3%) and agriculture with $41.9m (15.6%). Subsidized medium & long-term loans by the Central Bank amounted to $213.3m in the first half of 2016, equivalent to 79.5% of the total. The industrial sector accounted for 60.2% of subsidized medium & long-term loans, followed by tourism with 28.4% and agriculture with 11.4%. The program was established in the first half of 1997 and consists of a 5% to 7% subsidy on the interest charged on loans extended to productive sectors.

Also, subsidized interest loans guaranteed by the Kafalat Corporation reached $50.35m, or 18.8% of the total, in the first half of 2016. The industrial sector received 39.8% of Kafalat-backed subsidies, followed by the agricultural sector with 35.2% and the tourism sector with 25%. Kafalat provides financial guarantees for loans of up to $400,000 for small and medium-sized enterprises in productive sectors. In addition, subsidized interest loans granted by leasing companies amounted to $4.5m in the first half of 2016, or 1.7% of the total, and were extended in full to the industrial sector. The cumulative amount of subsidized interest loans to productive sectors in Lebanon totaled $6.8bn between 1997 and June 2016.

Subsidized Interest Loans* (US$m)



**in the first half of each year*
Source: Central Bank, Byblos Research

Deterioration in construction and public works activity in second quarter of 2016

The Central Bank's quarterly business survey shows that the prevailing decline in construction activity accelerated in the second quarter of 2016 from the preceding quarter, with the balance of opinions standing at -42 compared to -24 in the first quarter of 2016 and to -36 in the second quarter of 2015. The balance of opinions indicates that construction activity was the lowest in the Bekaa at -70, followed by the North (-42), Beirut & Mount Lebanon (-36) and the South region (-13). The business survey reflects the opinions of enterprise managers about the evolution of their businesses, in order to depict the trend of a number of key economic variables. The balance of opinions for public works stood at -37 in the second quarter of 2016, compared to -7 in the preceding quarter and to -42 in the second quarter of 2015. Opinions about the level of public works were the lowest in the Bekaa region at -74, followed by the North (-52), Beirut & Mount Lebanon (+20) and the South region (zero).

In parallel, the balance of opinions for the portfolio of projects was -38 in the second quarter of 2016 relative to -25 in the first quarter of 2016 and to -24 in the second quarter of 2015. The balance of opinions for the portfolio of projects was the lowest in the Bekaa region at -44, followed by the South (-27), the North (-36) and Beirut & Mount Lebanon (-35). Also, the balance of opinions for general construction activity was -40 in the second quarter of 2016, compared to -23 in the preceding quarter and to -31 in the second quarter of 2015. Further, the balance of opinions for construction costs reached -5 in the covered quarter down from -2 in the first quarter of 2016 and compared to +8 in the second quarter of 2015. The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator.

Construction and Public Works Activity: evolution of opinions

Aggregate results	Q2-13	Q2-14	Q2-15	Q2-16
General activity	-11	-22	-36	-42
Construction	-12	-18	-31	-40
Public works	-3	-24	-42	-37
Portfolio of projects	-6	-24	-24	-38
Construction costs	+37	+29	+8	-5
Investments (% of yes)	33%	38%	40%	33%

Source: Central Bank Business Survey for the Second Quarter of 2016

Lebanon in the News

Trade deficit widens by 4% to $15.7bn in 2016, equivalent to 31.4% of GDP

The total value of imports reached $18.7bn in 2016, constituting an increase of 3.5% from 2015, while the aggregate value of exports grew marginally by 0.8% to reach $3bn last year. As such, the trade deficit widened by 4.1% to $15.7bn in 2016 due to an increase of $636.5m in imports. The rise in imports mainly reflects an increase of $306m, or 8.9%, in the value of imported oil & mineral fuels to $3.74bn in 2016. The value of oil & mineral fuels accounted for 20% of total imports last year compared to a share of 19% in 2015. The trade deficit was equivalent to 31.4% of GDP in 2016 relative to 29.6% of GDP in 2015 and 33.1% of GDP in 2014. The coverage ratio was 15.9% in 2016 compared to 16.3% in 2015.

In volume terms, imports reached 17.4 million tons in 2016 compared to 15.7 million tons in 2015, while exports regressed by 14.5% to 1.66 million tons last year. Imports of oil & mineral fuels increased by 16.3% to 8.7 million tons in 2016, while non-hydrocarbon imports grew by 14.7% annually to 8.6 million tons. Also, imported oil & mineral fuels accounted for 50.3% of total imports in 2016 relative to a 47.9% share in the preceding year.

China was the main source of imports with $2.1bn, or 11.2% of the total, in 2016, followed by Italy with $1.4bn (7.5%), the United States with $1.18bn (6.3%), Germany with $1.16bn (6.2%), Greece with $1.1bn (5.7%), Egypt with $773.6m (4.1%) and Russia with $718.6m (3.8%). Imports from Egypt rose by 67.6%, those from Greece grew by 36.8%, imports from United States increased by 15.6%, those from Italy expanded by 9.8% and imports from China grew by 1%; while imports from Russia fell by 12.9% and those from Germany declined by 5% year-on-year. In parallel, the Port of Beirut was the entry point for 72.4% of Lebanon's imports in 2016, followed by the Hariri International Airport (19.9%), the Port of Tripoli (5.5%), the Port of Saida (1.4%), the Arida and Masnaa crossing points (0.3% each), and the Abboudieh and Tyre crossing points (0.1% each).

Further, South Africa was the main export destination of Lebanese merchandise with $628.3m, or 21.1% of total exports, followed by Saudi Arabia with $266.7m (9%), the UAE with $238.7m (8%), Syria with $199m (6.7%), Iraq with $161.7m (5.4%) and Jordan with $99.6m (3.3%). Exports to South Africa grew by 3.2 times in 2016, while those to Iraq contracted by 28%, exports to Saudi Arabia dropped by 25.2%, those to the UAE regressed by 23.7%, exports to Jordan fell by 11.3% and those to Syria decreased by 5.2%.

Lebanon's main exports were jewelry at $828.3m in 2016 and accounted for 27.8% of the total. They were followed by prepared foodstuff at $445.5m (15%), machinery & mechanical appliances at $333.6m (11.2%), chemical products at $304.5m (10.2%), base metals at $253.2m (8.5%), vegetable products at $189.1m (6.4%), paper products at $133.3m and plastics & rubber at $133.2m (4.5% each). In parallel, the Port of Beirut was the exit point for 46.9% of Lebanon's total exports last year, followed by the Hariri International Airport (38.9%), the Port of Tripoli (7.2%), the Masnaa crossing point (3.4%), the Arida crossing point (2.2%), the Abboudieh crossing point (1%) and the Port of Saida (0.5%). Re-exports totaled $532.7m in 2016 compared to $507m in 2015.

Byblos Bank's net profits at $165m in 2016, capital adequacy ratio at 16.2%

Byblos Bank sal, one of the top banking and financial services groups in Lebanon, declared unaudited net profits of $165.3m in 2016, constituting an increase of 2.4% from $161.5m in 2015. Further, the Bank's pre-tax profits grew by 22.7% year-on-year to $241.4m in 2016. Net interest income reached $247.7m in 2016 compared to $256.3m in 2015; while net fees & commissions income stood at $80.7m relative to $80.9m last year. Also, net gains from financial instruments at fair value grew by 18.6% to $53.1m, while net gains from financial assets at amortized cost increased by 4.8 times to $277.1m in 2016. This significant increase is mainly due to the gains resulting from the financial swap transactions carried out with the Central Bank. Net operating income totaled $681.4m in 2016, increasing by 60.5% from $424.6m in 2015. In parallel, total operating expenses reached $239.6m in 2016, with personnel expenses accounting for 55.8% of the total.

The Bank's aggregate assets reached $20.83bn at the end of 2016 and grew by 4.8% from $19.87bn at end-2015. Net loans & advances to customers totaled $5.16bn at the end of 2016, up by 5.2% from $4.9bn at end-2015, while loans extended to related parties stood at $13.6m. The Bank's net non-performing loans, or NPLs net of specific provisions and reserved interest, were equivalent to 1.2% of net loans at the end of 2016. Also, the NPL coverage ratio, including collective provisions, was 95.4% at the end of 2016; while the Bank's immediate liquidity with commercial banks and central banks, including certificates of deposit, stood at $11.5bn at the end of 2016, representing 55.3% of the Bank's aggregate assets.

The Bank's total deposits reached $16.86bn at the end-2016 and grew by 3.1% from the end of 2015, with deposits from related parties standing at $242.8m. In parallel, the Bank's total equity reached $1.8bn at the end of 2016, up by 5.2% from end-2015. The Bank indicated that it has allocated an important part of the gains resulting from the financial swap transactions carried out with the Central Bank as provisions in preparation for the implementation of the International Financial Reporting Standard IFRS-9 due in 2018, while it used another part of the gains to write off Byblos Bank's investments in its subsidiaries in Sudan and Syria and deconsolidate its operations there.

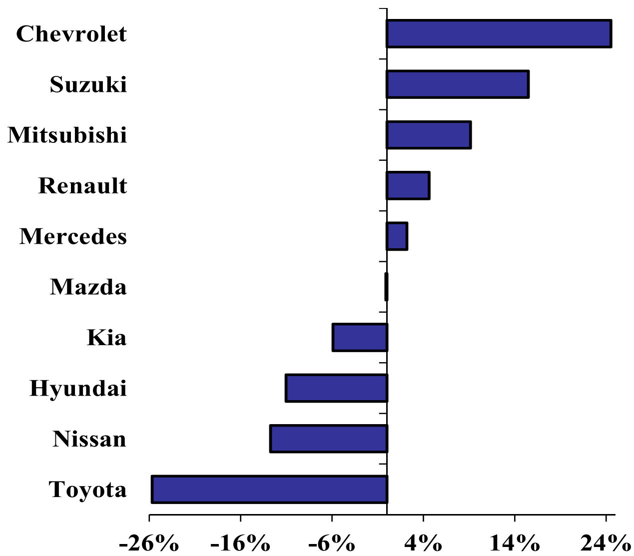
Byblos Bank maintains strong financial buffers to mitigate unexpected risks and counter economic volatility. The Bank's capital adequacy ratio stood at 16.18% as of September 2016 according to Basel III criteria, which is significantly above the minimum regulatory requirement of 12% for 2017 and is one of the highest such ratios in the Lebanese banking sector. The Byblos Bank Group has a direct presence in Iraq, Syria, Sudan, the United Arab Emirates, Nigeria, Armenia and the Democratic Republic of Congo, as well as in Belgium, France, the United Kingdom and Cyprus.

New car sales down 8% in 2016

Figures released by the Association of Automobile Importers in Lebanon show that dealers sold 36,326 new passenger cars in 2016, constituting a decrease of 7.7% from 39,361 cars sold in 2015. Consumers purchased 2,411 new cars in January, 2,793 automobiles in February, 2,786 cars in March, 3,109 vehicles in April, 3,165 automobiles in May, 4,180 cars in June, 3,700 automobiles in July, 3,418 cars in August, 3,017 vehicles in September, 2,562 automobiles in October, 2,472 cars in November and 2,713 vehicles in December 2016.

Japanese automobiles accounted for 37% of total sales in 2016, followed by Korean cars with a 34.3% share, European automobiles (20.8%), American vehicles (7.2%) and Chinese cars (0.8%). The sales of new American vehicles increased by 14.6% year-on-year in 2016 and sales of Chinese cars grew by 3.8%; while the number of Japanese cars sold dropped by 11.3% year-on-year, demand for Korean cars regressed by 8.1% and the number of European automobiles sold declined by 6.9%. Kia is the leading brand in the Lebanese market with 7,525 vehicles sold in 2016, followed by Toyota with 6,271 in new car sales, Hyundai (5,964), Nissan (4,092), Renault (1,755), Suzuki (1,383) and Mitsubishi (1,300). In parallel, 2,548 new commercial vehicles were sold in 2016, up by 11.1% from 2,293 commercial vehicles purchased in 2015. Overall, car dealers sold 38,874 new passenger automobiles and commercial vehicles in 2016, down by 6.7% from 41,654 cars sold in 2015.

Sales of Top 10 Car Brands in 2016 (% change*)



** year-on-year*
Source: AIA, Byblos Research

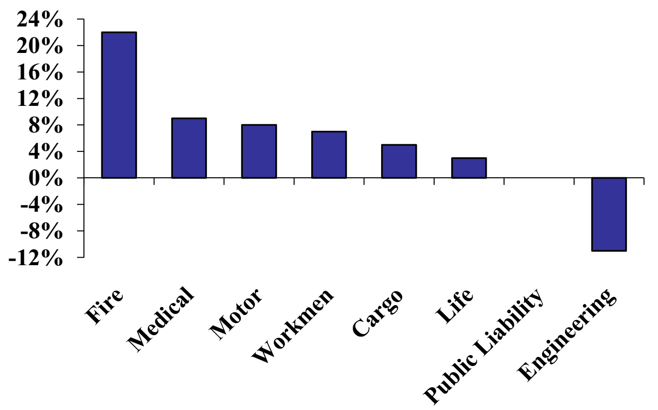
In parallel, the number of new vehicles sold by Lebanon's top five distributors reached 26,101 in 2016 and accounted for 67.1% of new car sales. NATCO sal sold 7,081 vehicles, equivalent to 18.2% of the total, followed by Century Motor Co. sal with 5,416 automobiles (13.9%), Boustany United Machineries sal with 5,172 vehicles (13.3%), Rasamny Younis Motor Co. sal with 4,814 cars (12.4%) and Bassoul Heneiné sal with 3,618 automobiles (9.3%).

Insurance premiums up 4% to $1.2bn in first nine months of 2016, claims and benefits up 8% to $654m

Figures released by the Association of Insurance Companies in Lebanon (ACAL) indicate that insurance premiums generated in Lebanon totaled $1.19bn in the first nine months of 2016, constituting an increase of 4% from $1.15bn in the same period of 2015. Premiums reached $424.7m in the first quarter, $405.1m in the second quarter and $360.5m in the third quarter of 2016.

Medical insurance premiums totaled $364.7m in the first nine months of 2016 and accounted for 30.6% of the sector's aggregate premiums. They were followed by life premiums with $358.2m (30.1%), motor premiums with $267.4m (22.5%), fire insurance premiums with $85.7m (7.2%), workmen compensation with $39.9m (3.4%), cargo premiums with $22.2m (1.9%), public liability premiums with $13.9m (1.2%) and engineering premiums with $6.2m (0.5%), while insurance premiums from other categories amounted to $32.2m and accounted for 2.7% of the total.

Change in Paid Claims in First Nine Months of 2016



Source: ACAL, Byblos Research

ACAL noted that medical insurance premiums covering Lebanese citizens grew by 3% to $354.1m in the first nine months of 2016, while premiums covering expatriates increased by 7% annually to $10.7m. Also, it indicated that non-compulsory motor insurance premiums increased by 5% to $224.4m in the first nine months of 2016, while compulsory motor insurance premiums improved by 7% to $43m. The report shows that premiums from life insurance grew by 7% in the first nine months of 2016, posting the largest increase among all categories, followed by motor premiums (+6%), medical premiums (+3%) and public liability premiums (+2%), while premiums from other categories grew by 8% in the covered period. In contrast, engineering premiums declined by 17% in the covered period, posting the steepest drop among all segments, followed by cargo premiums (-14%), fire premiums (-3%) and workmen compensation (-1%).

In parallel, ACAL indicated that total benefits and claims paid by insurance companies stood at $654m in the first nine months of 2016, constituting a rise of 8% from $606.2m in the first nine months of 2015. Benefits and claims paid for the non-life categories reached $467.2m in the covered period, constituting an increase of 9.8% from $425.6m in the same period of 2015, while claims disbursed for the life insurance category amounted to $186.8m and grew by 3.5% from $180.6m in the first nine months of 2015. Medical claims accounted for 39.4% of total claim payments in the first nine months of 2016, followed by life insurance claims (28.6%), motor claims (21.7%), fire claims (3.7%), workmen compensation (3.5%), cargo claims (0.9%), public liability (0.6%) and engineering claims (0.3%).

Fire claims surged by 22% in the first nine months of 2016, medical claims expanded by 9%, motor premiums rose by 8%, workmen compensation claims increased by 7%, cargo claims grew by 5% and life insurance claims rose by 3%. In contrast, engineering claims regressed by 11% in the covered period, while public liability claims were unchanged year-on-year. Further, unit-linked policies accounted for 62.5% of total life insurance premiums and for 18.9% of the number of life insurance contracts in the first nine months of 2016, while life protection plans represented 37.5% of total life insurance premiums and 81.1% of the total number of life contracts during the covered period.

Top five freight forwarders' import activity up 5% in first 11 months of 2016, exports up 1%

Figures released by the Port of Beirut show that overall import shipping operations by the top five freight forwarders through the port reached 327,412 20-foot equivalent units (TEUs) in the first 11 months of 2016, constituting an increase of 4.8% from 312,492 TEUs in the same period of 2015. The top five freight forwarders accounted for 88.2% of imports to the Lebanese market and for 63.4% of the total import freight forwarding market during the covered period. Mediterranean Shipping Company (MSC) handled 101,625 TEUs in imports in the first 11 months of 2016, equivalent to a 19.7% share of the total freight forwarding import market. Metz Group followed with 64,530 TEUs (12.5%), then Merit Shipping with 60,599 TEUs (11.7%), Sealine Group with 59,050 TEUs (11.4%) and Gezairy Transport with 41,608 TEUs (8.1%). Further, Gezairy Transport registered a year-on-year increase of 55.2% in import shipping volume, the highest among the top five freight forwarders, while Sealine Group posted the steepest decline at -13.7%.

In parallel, export shipping operations by the top five freight forwarders through the Port of Beirut reached 81,722 TEUs in the first 11 months of 2016, almost unchanged from 81,573 TEUs in the same period of 2015. The top five freight forwarders accounted for 96.5% of exported Lebanese cargo and for 15.8% of the total export freight forwarding market in the first 11 months of 2016. Merit Shipping handled 39,651 TEUs of freight in the covered period, equivalent to 46.8% of the Lebanese cargo export market. Metz Group followed with 18,520 TEUs (21.9%), then Sealine Group with 15,792 TEUs (18.6%), MSC with 4,126 TEUs (4.9%) and Gezairy Transport with 3,633 TEUs (4.3%). Further, Merit Shipping registered a year-on-year rise of 27.1% in export shipping volume, while Sealine Group posted the steepest decline at -20%.

Ratio Highlights

(in % unless specified)	2014	2015	2016e	Change*
Nominal GDP ($bn)	50.0	51.1	52.0	
Public Debt in Foreign Currency / GDP	51.2	53.0	54.2	217
Public Debt in Local Currency / GDP	81.9	84.6	89.6	645
Gross Public Debt / GDP	133.1	137.6	143.8	862
Total Gross External Debt / GDP**	170.0	174.7	176.6	190
Trade Balance / GDP	(34.4)	(29.5)	(30.0)	47
Exports / Imports	16.2	16.6	16.1	(49)
Fiscal Revenues / GDP	21.8	18.7	19.6	118
Fiscal Expenditures / GDP	27.9	26.5	28.2	218
Fiscal Balance / GDP	(6.1)	(7.7)	(8.6)	99
Primary Balance / GDP	2.6	1.4	1.4	1
Gross Foreign Currency Reserves / M2	66.5	58.7	62.7	394
M3 / GDP	235.4	241.9	250.0	1230
Commercial Banks Assets / GDP	351.4	364.0	392.5	3483
Private Sector Deposits / GDP	288.9	296.6	307.7	1618
Private Sector Loans / GDP	101.8	106.1	109.2	495
Private Sector Deposits Dollarization Rate	65.7	64.9	65.0	10
Private Sector Lending Dollarization Rate	75.6	74.8	73.6	(123)

** Change in basis points 15/16*
***Includes portion of public debt owed to non-residents, liabilities to non-resident banks, non-resident deposits (estimated by the IMF), Bank for International Settlements' claims on Lebanese non-banks*
Source: Association of Banks in Lebanon, Institute of International Finance, International Monetary Fund, World Bank, Byblos Research Estimates & Calculations
Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

Risk Metrics

Lebanon	Oct 2014	Sep 2015	Oct 2015	Change**	Risk Level
Political Risk Rating	52.0	54.5	54.5	▼	High
Financial Risk Rating	38.0	39.0	39.0	▼	Low
Economic Risk Rating	27.0	33.0	33.0	▼	Moderate
Composite Risk Rating	58.5	63.25	63.25	▼	Moderate

MENA Average*	Oct 2014	Sep 2015	Oct 2015	Change**	Risk Level
Political Risk Rating	57.1	57.6	57.7	▼	High
Financial Risk Rating	40.6	39.2	39.3	▲	Low
Economic Risk Rating	35.6	31.3	31.2	▲	Moderate
Composite Risk Rating	66.6	64.0	64.1	▲	Moderate

**excluding Lebanon*
***year-on-year change in risk*
Source: The PRS Group, Byblos Research
Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)
Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's	B2	NP	Negative	B2		Negative
Fitch Ratings	B-	B	Stable	B-		Stable
Standard & Poor's	B-	B	Stable	B-	B	Stable
Capital Intelligence	B	B	Negative	B	B	Negative

Source: Rating agencies

Banking Ratings	Banks' Financial Strength	Banking Sector Risk	Outlook
Moody's	E+		Negative

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